

VILLAGE OF HESPERIA
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2005

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Hesperia	County Newaygo
Audit Date March 31, 2005	Opinion Date May 20, 2005	Date Accountant Report Submitted to State: July 13, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Calvin Meeusen Company, C.P.A., PLLC			
Street Address 1014 S. Beacon Blvd.	City Grand Haven	State MI	ZIP 49417
Accountant Signature 			

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Village of Hesperia
List of Principal Individuals

Jim Smith	President
Doris DeLong	Treasurer
Faye Ohrling	Clerk
Tom Hallowell	Trustee
Don Hills	Trustee
Molly Maynard	Trustee
Mari Ann McGahan	Trustee
William Semans	Trustee
Roger Wambaugh	Trustee

Village of Hesperia

Management's Discussion and Analysis

March 31, 2005

Using this Management's Discussion and Analysis

This annual report is intended to supplement the Village's financial statements for fiscal year ending March 31, 2005. The format of the financial statements has changed due to the implementation of GASB Statement 34 accounting. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements (i.e. the Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance and the Governmental Fund Balance Sheet) tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's total net assets are \$2,184,364 as of March 31, 2005. Unrestricted net assets, which represents net assets that can be used to finance day to day operations, comprise 4.6% of that total. The current level of unrestricted net assets for our governmental activities stands at \$181,769 or about 40% of current year operating expenditures.

Government-Wide Financial Analysis:

The first table presented is a summary of the government-wide statement of net assets for the Village. The net assets may be used as an indicator of a government's financial health. As of March 31, 2005, the Village's net assets from governmental activities totaled \$247,870 (11%) and \$1,936,494 (89%) from business-type activities, creating a total government-wide net asset total of \$2,184,364. Since this is the first year the Village has prepared financial statements following GASB 34, comparisons to the prior fiscal year are not available.

In examining the composition of these net assets, the reader should note that governmental activities net assets are primarily invested in capital assets (i.e., bridges, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the residents and they are not available to pay salaries, operational expenses, or fund capital projects.

Table 1
Village of Hesperia Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 196,792	\$ (68,187)	\$ 128,605
Restricted	-	1,846	1,846

Village of Hesperia

Management's Discussion and Analysis

March 31, 2005

Table 1- Village of Hesperia Net Assets-continued

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Capital assets, net of accumulated depreciation	<u>217,087</u>	<u>2,485,600</u>	<u>2,702,687</u>
Total	413,879	2,419,259	2,833,138
<u>Liabilities</u>			
Current	39,063	57,765	96,828
Noncurrent	<u>126,946</u>	<u>425,000</u>	<u>551,946</u>
Total	166,009	482,765	648,774
<u>Net Assets</u>			
Capital Assets, Net of Debt	66,101	2,015,600	2,081,701
Restricted	-	1,846	1,846
Unrestricted	<u>181,769</u>	<u>(80,952)</u>	<u>100,817</u>
Total net assets	\$ 247,870	\$1,936,494	\$2,184,364

The Village's net assets in the governmental activities are healthy although cash remains very tight in all of the funds except for Major and Village Street Funds as shown below.

General Fund	\$ 3,482	Sewer Fund	\$ 694
Major Street Fund	69,648	Water Fund	1,926
Local Street Fund	5,904	Internal Service	
Village Street Fund	33,010	Fund (overdraft)	<u>(38,256)</u>
			<u>\$76,408</u>

The total of the Village's cash did increase by \$34,453 for the year ended March 31, 2005.

Governmental Activities

Governmental activities increased the Village's net assets by \$48,300, accounting for 92% of the total growth in net assets. Table 2 depicts this occurrence which will be discussed in more detail later in this analysis.

The Village's total revenues in the General Fund increased by approximately 7.2%, excluding grant monies for bridge construction received in the prior year. The increase was primarily due to reimbursements received from other municipalities for the ambulance base. Expenses rose approximately 18% on an overall basis. The increase was mostly attributable to additional capital outlay in General Governmental for an ambulance base which was fully reimbursed.

Village of Hesperia

Management's Discussion and Analysis

March 31, 2005

Business-Type Activities

The Village's business-type activities consist of the Sewer and Water Funds. Revenues for business-type activities were \$278,984. We provide sewage treatment to approximately 95% of village residents through the Newaygo County wastewater treatment plant. We provide water to approximately 90% of village residents, which comes from the Village of Hesperia water system. Substantial increases in sewer revenue came from the new water/sewer rates and policies adopted by our Village Council in February 1, 2004. The sewer fund has a positive annual operating balance and the cash balance will continue to grow over the years. Some adjustments still need to be made to tweak the amount charged for the water usage fee per 1000 gallons, so we can maintain a positive O.M.R. balance. We will be making significant improvements to our sanitary sewer system, lift station and wastewater plant funded through a State Revolving Fund Loan. We hope to begin to replace water mains in the near future.

Table 2
Village of Hesperia Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Revenues</u>			
Program			
Charges for Services	\$ 13,945	\$ 274,444	\$ 288,389
General			
Property taxes	216,332	-	216,332
State revenue sharing	197,230	-	197,230
Reimbursements	28,913	-	28,913
Miscellaneous	42,251	4,540	46,791
Total	<u>498,671</u>	<u>278,984</u>	<u>777,655</u>
<u>Expenses</u>			
General government	115,104	-	115,104
Public safety	127,152	-	127,152
Public works	172,386	-	172,386
Recreation and culture	28,028	-	28,028
Other	7,701	-	7,701
Sewer fund	-	177,165	177,165
Water fund	-	97,562	97,562
Total	<u>450,371</u>	<u>274,727</u>	<u>725,098</u>
Increase in Net Assets	48,300	4,257	52,557
Net Assets at March 1, 2004	<u>199,570</u>	<u>1,983,302</u>	<u>2,182,872</u>
Net Assets at March 31, 2005	<u>\$ 247,870</u>	<u>\$1,987,559</u>	<u>\$2,235,429</u>

Village of Hesperia

Management's Discussion and Analysis

March 31, 2005

The Village's Funds

An analysis of the Village's major funds begins on page 5, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Village's major funds for 2005 include the General Fund, Major Streets, Local Streets, Village Streets, and Sewer and Water Funds.

We are now maintaining a positive cash balance in our street funds in hopes to begin to resurface our roads. We expect to spend some street revenue in the 2005-2006 fiscal year to repair our roads with large more permanent patching.

The General Fund pays the Village's general operating expenditures.

General Fund Budgetary Highlights

Over the course of the year, the Village Council amended the budget to take into account events during the year. The significant changes were to increase General Fund expenditures by \$59,461 and Water Fund expenditures by \$11,120 per unexpected expenses listed above in Governmental Activities.

Village expenditures overall were slightly over budget, resulting in total expenditures of \$4,685 over budget. The General Fund's fund balance decreased from \$31,528 a year ago to \$23,045 at March 31, 2005. These adjustments were made to reflect higher maintenance costs and capital outlay expenditures. Revenues were slightly lower than projections.

Capital Asset and Debt Administration

At March 31, 2005 the Village had \$4,559,635 (net of accumulated depreciation of \$2,074,035) invested in a broad range of capital assets including land, land improvements, buildings, machinery and equipment and water and sewer systems. We continue to make payments on two revenue bonds - one each in water and sewer, an intercounty drain note and various small installment purchases for vehicles. All of the payments were paid on time and in full.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for the next fiscal year projects property taxes to increase approximately \$11,000 from the current year. State revenue sharing allocations are a budgetary concern at this time. The State of Michigan has experienced significant budgeting problems and as they look for solutions, state grants may decrease. The amount of revenue sharing is uncertain but is expected to be similar to last years amount. Salaries are normally the largest total expenditure of all funds and represented approximately 31% of last year's expenditures. We expect wage expense to increase slightly.

Village of Hesperia
Management's Discussion and Analysis

March 31, 2005

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and other interested parties with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact us at (231) 854-6205.

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

**CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Village Council
Village of Hesperia, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Hesperia, Michigan (the Village) as of and for the year ended March 31, 2005, which, collectively, comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village of Hesperia has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, for the year ended March 31, 2005.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying required supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. My audit was conducted

for the purpose of forming opinions on the financial statements that collectively comprise the Village of Hesperia basic financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated May 20, 2005, on my consideration of the Village of Hesperia, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Calvin Meeusen Company C.P.A. PLLC.

Calvin Meeusen Company, C.P.A., PLLC
Grand Haven, Michigan
May 20, 2005

Village of Hesperia

STATEMENT OF NET ASSETS

March 31, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 73,788	774	74,562
Cash-restricted	-	1,846	1,846
Receivables			
Taxes	10,413	-	10,413
Accounts	-	27,416	27,416
Due from state	16,214	-	16,214
Internal balances (net)	96,377	(96,377)	-
Capital assets, net	<u>217,087</u>	<u>2,485,600</u>	<u>2,702,687</u>
Total assets	<u>413,879</u>	<u>2,419,259</u>	<u>2,833,138</u>
LIABILITIES			
Accounts payable	10,884	4,050	14,934
Accrued interest	-	8,715	8,715
Accrued liabilities	4,139	-	4,139
Non-current liabilities			
Bonds due within one year	24,040	45,000	69,040
Bonds due in more than one year	<u>126,946</u>	<u>425,000</u>	<u>551,946</u>
Total liabilities	<u>166,009</u>	<u>482,765</u>	<u>648,774</u>
NET ASSETS			
Invested in capital assets			
net of related debt	66,101	2,015,600	2,081,701
Restricted for:			
Debt service	-	1,846	1,846
Unrestricted	<u>181,769</u>	<u>(80,952)</u>	<u>100,817</u>
Total Net Assets	<u>247,870</u>	<u>1,936,494</u>	<u>2,184,364</u>

The Notes to Financial Statements are an integral part of this statement.

Village of Hesperia

STATEMENT OF ACTIVITIES

March 31, 2005

	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Primary Government		Total
			Governmental activities	Business-type activities	
Primary Government					
Governmental activities					
General government	115,104	1,504	(113,600)	-	(113,600)
Public safety	127,152	1,961	(125,191)	-	(125,191)
Public works	172,386	3,965	(168,421)	-	(168,421)
Recreation and culture	28,028	6,515	(21,513)	-	(21,513)
Other governmental functions	<u>7,701</u>	<u>-</u>	<u>(7,701)</u>	<u>-</u>	<u>(7,701)</u>
Total governmental activities	450,371	13,945	(436,426)	-	(436,426)
Business-type activities					
Sewer	177,165	176,280	-	(885)	(885)
Water	<u>97,562</u>	<u>98,164</u>	<u>-</u>	<u>602</u>	<u>602</u>
Total business-type activities	<u>274,727</u>	<u>274,444</u>	<u>-</u>	<u>(283)</u>	<u>(283)</u>
Total primary government	<u>725,098</u>	<u>288,389</u>	<u>(436,426)</u>	<u>(283)</u>	<u>(436,709)</u>
General revenues					
Property taxes			216,332	-	216,332
State revenue sharing			197,230	-	197,230
Grants			14,176	-	14,176
Unrestricted investment earnings			29	-	29
Reimbursements			28,913	-	28,913
Miscellaneous			<u>28,046</u>	<u>4,540</u>	<u>32,586</u>
Total general revenue and special items			<u>484,726</u>	<u>4,540</u>	<u>489,266</u>
Change in net assets			48,300	4,257	52,557
Net assets at April 1, 2004			<u>199,570</u>	<u>1,983,302</u>	<u>2,182,872</u>
Net assets at March 31, 2005			<u>247,870</u>	<u>1,987,559</u>	<u>2,235,429</u>

The accompanying notes are an integral part of this statement.

Village of Hesperia
BALANCE SHEET
GOVERNMENTAL FUNDS

March 31, 2005

	General Fund	Major Streets
ASSETS		
Cash	\$ 3,482	\$ 69,648
Taxes Receivable	8,240	-
Due from state	-	11,314
Due from other funds	<u>23,781</u>	<u>-</u>
Total Assets	<u>\$ 35,503</u>	<u>\$ 80,962</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable	\$ 8,816	\$ 184
Accrued liabilities	3,642	202
Due to other funds	<u>-</u>	<u>-</u>
Total Liabilities	<u>12,458</u>	<u>386</u>
Fund equity:		
Fund balance		
Undesignated	<u>23,045</u>	<u>80,576</u>
Total Fund Equity	<u>23,045</u>	<u>80,576</u>
Total Liabilities and Fund Equity	<u>\$ 35,503</u>	<u>\$ 80,962</u>

The accompanying notes are an integral part of this statement.

<u>Local Streets</u>	<u>Village Streets</u>	<u>Total Governmental Funds</u>
\$ 5,904	\$ 33,010	\$ 112,044
-	2,173	10,413
4,900	-	16,214
<u>-</u>	<u>30,399</u>	<u>54,180</u>
<u>\$ 10,804</u>	<u>\$ 65,582</u>	<u>\$ 192,851</u>
\$ 184	\$ -	\$ 9,184
178	117	4,139
<u>-</u>	<u>-</u>	<u>-</u>
<u>362</u>	<u>117</u>	<u>13,323</u>
<u>10,442</u>	<u>65,465</u>	<u>179,528</u>
<u>10,442</u>	<u>65,465</u>	<u>179,528</u>
<u>\$ 19,672</u>	<u>\$ 65,582</u>	<u>\$ 201,719</u>

Village of Hesperia

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2005

Total fund balance-governmental funds \$ 179,528

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds.

Cost of capital assets	\$ 297,627	
Accumulated depreciation	<u>(147,272)</u>	150,355

An internal service fund is used by the Village to charge the cost
of equipment usage to individual funds. The assets and liabilities
of the internal service fund are included in the governmental
activities in the statement of net assets 50,819

Long term liabilities, including bonds and notes payable, are not
due and payable in the current period and therefore, are not reported
in the funds. Debt attributable to the internal service fund is not
included in this amount. (132,832)

Net assets of governmental activities in the
Statement of Net Assets \$ 247,870

The accompanying notes are an integral part of this statement.

Village of Hesperia

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended March 31, 2005

	General Fund	Major Streets	Local Streets
Revenues:			
Taxes	\$171,208	\$ -	\$ -
State revenue sharing	104,654	65,136	27,440
Reimbursements	35,027	-	-
Grants	14,176	-	-
Interest and rentals	2,790	-	-
Other revenue	<u>10,511</u>	<u>6,898</u>	<u>1,469</u>
TOTAL REVENUES	338,366	72,034	28,909
Expenditures			
Current:			
General government	164,083	-	-
Public safety	120,218	-	-
Public works	18,645	48,174	21,005
Recreation and cultural	28,028	-	-
Other	<u>15,875</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>346,849</u>	<u>48,174</u>	<u>21,005</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,483)	23,860	7,904
Other financing sources (uses)			
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(8,483)	23,860	7,904
Fund balance - April 1	<u>31,528</u>	<u>56,716</u>	<u>2,538</u>
Fund balance - March 31	<u>\$ 23,045</u>	<u>\$ 80,576</u>	<u>\$ 10,442</u>

The accompanying notes are an integral part of this statement.

<u>Village Streets</u>	<u>Total Governmental Funds</u>
\$ 45,124	\$ 216,332
-	197,230
-	35,027
-	14,176
-	2,790
-	<u>18,878</u>
45,124	484,433
-	164,083
-	120,218
15,262	103,086
-	28,028
-	<u>15,875</u>
<u>15,262</u>	<u>431,290</u>
29,862	53,143
<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>
29,862	53,143
<u>35,603</u>	<u>126,385</u>
<u>\$ 65,465</u>	<u>\$ 179,528</u>

Village of Hesperia

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

March 31, 2005

Net change in fund balances-total governmental funds: \$ 53,143

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets as expenditures
in the Statement of Activities; these costs are depreciated over their
estimated useful lives.

Depreciation expense	\$ (27,923)	
Capital outlay	<u>54,010</u>	26,087

Repayment of principal on long term debt is an expenditure
in the governmental funds but the payment reduces long term
liabilities in the Statement of Net Assets 14,949

The net income of the internal service fund is reported with
governmental activities (45,879)

Change in net assets of governmental activities \$ 48,300

The accompanying notes are an integral part of this statement.

Village of Hesperia

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

March 31, 2005

ASSETS	Enterprise Funds	
	Sewer	Water
Current Assets		
Cash	\$ 694	\$ 80
Accounts receivable	18,238	9,178
Due from other funds	36,000	-
Total current assets	54,932	9,258
Restricted Assets - Cash	-	1,846
Non Current Assets		
Property, plant and equipment	3,920,074	639,561
Less accumulated depreciation	(1,830,615)	(243,420)
Capital assets, net	2,089,459	396,141
Total Assets	2,144,391	407,245
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	2,869	1,181
Due to other funds	62,372	70,005
Accrued interest	4,375	4,340
Revenue bonds payable, due within one year	25,000	20,000
Total current liabilities	94,616	95,526
Non Current Liabilities		
Revenue bonds payable, less amounts due in one year	300,000	125,000
Total non current liabilities	300,000	125,000
Net Assets		
Invested in capital assets, net of related debt	1,764,459	251,141
Reserve for revenue bond retirement	-	1,846
Unreserved	(14,684)	(66,268)
Total net assets	\$1,749,775	\$ 186,719

The accompanying notes are an integral part of this statement.

<u>Total</u>	<u>Internal Service Fund</u>
\$ 774	\$ (38,256)
27,416	-
-	<u>42,197</u>
<u>28,190</u>	<u>3,941</u>
1,846	-
4,559,635	210,263
<u>(2,074,035)</u>	<u>(143,532)</u>
<u>2,485,600</u>	<u>66,731</u>
2,515,636	70,672
4,050	1,700
96,377	-
8,715	-
<u>45,000</u>	<u>9,698</u>
154,142	11,398
<u>425,000</u>	<u>8,455</u>
425,000	8,455
2,015,600	48,578
1,846	-
<u>(80,952)</u>	<u>2,241</u>
<u>\$1,936,494</u>	<u>\$ 50,819</u>

Village of Hesperia

STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year ended March 31, 2005

	<u>Enterprise Funds</u>	
	<u>Sewer</u>	<u>Water</u>
Operating revenues		
Sales	\$ 176,280	\$ 58,160
Sales - restricted	-	40,004
Rentals	-	-
	<u>176,280</u>	<u>98,164</u>
Operating Expenses		
Salaries and Wages	22,742	23,892
Fringe Benefits	5,323	5,323
Payroll Taxes	1,268	1,966
Operating Supplies	7,403	1,492
Services and Charges	7,385	3,690
Professional Services	757	757
Insurance	13,798	11,128
Utilities	19,880	9,187
Repairs and Maintenance	1,126	13,581
Education and Training	160	150
Rentals	325	-
Printing & Publishing	2,562	687
Depreciation	<u>77,130</u>	<u>14,327</u>
Total Operating Expenses	<u>159,859</u>	<u>86,180</u>
Operating Income (Loss)	16,421	11,984
Non operating Income (Expenses)		
Other Income	800	3,740
Interest Expense	<u>(17,306)</u>	<u>(11,382)</u>
Total Non operating Income (Expenses)	<u>(16,506)</u>	<u>(7,642)</u>
Net Income (Loss)	(85)	4,342
Retained Earnings - April 1, 2004	<u>1,749,860</u>	<u>182,377</u>
Retained Earnings - March 31, 2005	<u>\$1,749,775</u>	<u>\$186,719</u>

<u>Total</u>	<u>Internal Service Fund</u>
\$ 234,440	\$ -
40,004	-
-	<u>10,785</u>
<u>274,444</u>	<u>10,785</u>
46,634	14,792
10,646	4,338
3,234	1,303
8,895	5,280
11,075	1,723
1,514	-
24,926	3,868
29,067	6,322
14,707	7,601
310	-
325	-
3,249	-
<u>91,457</u>	<u>13,742</u>
<u>246,039</u>	<u>58,969</u>
28,405	(48,184)
4,540	3,453
<u>(28,688)</u>	<u>(1,148)</u>
<u>(24,148)</u>	<u>2,305</u>
4,257	(45,879)
<u>1,932,237</u>	<u>96,698</u>
<u>\$1,936,494</u>	<u>\$ 50,819</u>

Village of Hesperia

STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended March 31, 2005

	<u>Enterprise Funds</u>	
	<u>Sewer</u>	<u>Water</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 192,645	\$ 105,910
Payments to suppliers	(59,512)	(47,983)
Payments to employees	<u>(22,404)</u>	<u>(23,585)</u>
Net cash provided by operating activities	110,729	34,342
Cash Flows From Noncapital Financing Activities		
Operating subsidies and transfers to other funds	-	-
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	-	(42,994)
Principal and interest paid on capital debt	(46,759)	(36,113)
Other receipts	800	3,740
Payments to other funds	<u>(76,554)</u>	<u>29,837</u>
Net cash used by capital and related financing activities	(122,513)	(45,530)
Net decrease in cash	(11,784)	(11,188)
Cash at April 1, 2004	<u>12,478</u>	<u>13,114</u>
Cash at March 31, 2005	<u>694</u>	<u>1,926</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating Income (loss)	17,623	11,984
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities		
Depreciation expense	75,928	14,327
Change in Assets and Liabilities:		
Receivables-net	16,365	7,746
Accounts payable	<u>813</u>	<u>285</u>
Net Cash Provided by Operating Activities	\$ <u>110,729</u>	\$ <u>34,342</u>

<u>Total</u>	<u>Internal Service Fund</u>
\$ 298,555	\$ 10,785
(107,495)	(30,018)
<u>(45,989)</u>	<u>(14,545)</u>
145,071	(33,778)
-	-
(42,994)	(12,200)
(82,872)	(10,378)
4,540	3,453
<u>(46,717)</u>	<u>8,868</u>
(168,043)	(10,257)
(22,972)	(44,035)
<u>25,592</u>	<u>5,779</u>
<u>2,620</u>	<u>(38,256)</u>
29,607	(48,184)
90,255	13,742
24,111	-
<u>1,098</u>	<u>664</u>
\$ <u>145,071</u>	\$ <u>33,778</u>

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS
March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Hesperia (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's policies are described below.

Effective April 1, 2004, the Village adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balances at April 1, 2004	
governmental funds	\$ 126,385
Bonds and notes payable	(125,281)
Capital assets, net	101,768
Internal Service Fund	<u>96,698</u>
Restated net assets at April 1, 2004	<u>\$ 199,570</u>

The beginning retained earnings in the Proprietary Funds restated for the effects of implementation of GASB Statement No. 34 are as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>
Retained earnings at April 1, 2004	\$ 82,673	\$ 182,377
Reclassification of Contributed Capital	<u>1,667,187</u>	<u>-</u>
Restated retained earnings at April 1, 2004	<u>\$1,749,860</u>	<u>\$ 182,377</u>

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

1. Reporting Entity

The Village of Hesperia is a home rule village which operates under an elected village council form of government and provides services to its residents in many areas including public safety, highways and streets, sanitation, parks, recreation and general administrative services.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and user charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED

March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state revenue sharing and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on streets classified as local streets.

The Village Streets Special Revenue Fund accounts for various activities related to street repair and maintenance as deemed appropriate by the Village Council. Three mills of general property tax revenues have been allocated to this special revenue fund.

The Village reports the following major proprietary funds:

Enterprise Funds

The Sewer Fund accounts for the activities of the sewage collection system. The main source of revenue for the Sewer Fund comes from user charges.

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

Enterprise Funds-Continued

The Water Fund accounts for the activities of the water distribution system. The main source of revenue for the Water Fund also comes from user charges.

Internal Service Fund

The Internal Service Fund accounts for the financing of services provided by one department to other departments of the Village on a cost reimbursement basis. The Equipment Pool is accounted for in this fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this are charges between the Village's sewer function and various other functions of the Village, when applicable. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenue rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Assets, Liabilities, and Net Assets or Equity

a. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, money market demand deposits and certificates of deposit. The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds. The Village has adopted an investment policy that is more restrictive than the above. See Note C2.

The Village considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

b. Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes attach as an enforceable lien on property and are levied on December 31 and are payable through September 15. The Village bills and collects its own property taxes and does not collect taxes for any other unit of government. Uncollectable real property taxes as of the following March 1 are turned over by the Village to the County's for collection. The County's advances the Village all these delinquent property taxes. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period (60 days). The 2004 state taxable value for real and personal property of the Village totalled approximately \$15,042,486.

Collections of these taxes are accounted for in the General Fund and the Village Streets Fund. Village property tax revenues are recognized in the period for which they are levied. The Village is permitted by law to levy taxes up to 14.7086 mills per \$1,000 of assessed valuation for general governmental services. The tax rate to finance general government services for the year ended March 31, 2005 was 14.3772 mills.

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Assets, Liabilities, and Net Assets or Equity-Continued

c. Restricted Assets

Certain cash accounts of the Water Fund are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants and Village ordinances.

d. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements, if any, are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-50
Infrastructure	20-40
Land improvements	10-20
Equipment	5-10

e. Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Generally, employees must use earned vacation time in the current year and any unused benefits are forfeited. Sick leave is accumulated at the rate of one-half day per month, up to a maximum of 45 days, subject to certain conditions. It is the Village's policy to recognize the cost of sick leave at the time payments are made.

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Assets, Liabilities, and Net Assets or Equity-Continued

f. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

g. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

h. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through passage of a resolution.
- d. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- e. Appropriations for the General Fund lapse at the end of the fiscal year.

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY-CONTINUED

Budgeted amounts are as originally adopted, or as amended by the Village Council as of March 31, 2005.

2. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Village carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There has not been any uncovered or unreimbursed claims in any of the past three years.

NOTE C - DEPOSITS

1. Deposits

All deposits are in a single financial institution and are carried at cost; the deposits are composed of a money market checking account and a certificate of deposit..

As of March 31, 2005, the Village's carrying amount of deposits was \$76,410, and the bank balance was \$76,410. All of the bank balance was covered by federal depository insurance.

2. Investment Policy

Michigan Compiled Laws, Section 129.91, authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; prime commercial paper; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Village in accordance with Public Act 20 of 1943 (as amended) authorizes investments in demand depository accounts, certificates of deposit and savings accounts.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE C - DEPOSITS-CONTINUED

3. Summary

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ 73,790	\$ 774	\$ 74,564
Restricted assets	<u>-</u>	<u>1,846</u>	<u>1,846</u>
Total	<u>\$ 73,790</u>	<u>\$ 2,620</u>	<u>\$ 76,410</u>

4. Restricted Assets

Cash in the enterprise fund is restricted primarily under a bond ordinance associated with the 1990 Water Tower bond. Amounts have been restricted for the following purposes at March 31, 2005;

Business-type activities	
Water Fund	
Bond Reserve Fund (bond ordinance)	\$ 1,846
	<u>\$ 1,846</u>

NOTE D-CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

<u>Governmental Activities</u>	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2005</u>
Capital assets, not being depreciated:				
Land	\$ 8,300	\$ -	\$ -	\$ 8,300
Total capital assets, not being depreciated	<u>8,300</u>	<u>-</u>	<u>-</u>	<u>8,300</u>
Capital assets, being depreciated:				
Buildings	116,798	55,971	-	172,769
Land improvements	72,776	-	21,857	50,919
Machinery & Equipment	<u>267,857</u>	<u>34,001</u>	<u>25,955</u>	<u>275,903</u>
Total capital assets, being depreciated	457,431	89,972	47,812	499,591

Village of Hesperia

NOTES TO FINANCIAL STATEMENTS-CONTINUED

March 31, 2005

NOTE D-CAPITAL ASSETS - CONTINUED

<u>Governmental Activities-Cont.</u>	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2005</u>
Less accumulated depreciation for:				
Buildings	\$ 66,209	\$ 3,592	\$ -	\$ 69,801
Land improvements	57,110	1,861	21,857	37,114
Machinery & Equipment	<u>187,374</u>	<u>22,470</u>	<u>25,955</u>	<u>183,889</u>
Total accumulated depreciation	<u>310,693</u>	<u>27,923</u>	<u>47,812</u>	<u>290,804</u>
Total capital assets, being depreciated, net	<u>146,738</u>	<u>62,049</u>	<u>-</u>	<u>208,787</u>
Capital Assets, net	<u>155,038</u>	<u>62,049</u>	<u>-</u>	<u>217,087</u>
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	<u>58,155</u>	<u>-</u>	<u>-</u>	<u>58,155</u>
Total capital assets, not being depreciated	58,155	-	-	58,155
Capital assets being depreciated:				
Sewer Fund				
Treatment Plant and Collection System	3,854,552	-	-	3,854,552
Machinery & Equipment	11,634	-	267	11,367
Water Fund				
Buildings	8,805	-	-	8,805
Water distribution System	572,600	42,994	-	615,594
Machinery & Equipment	<u>22,410</u>	<u>-</u>	<u>11,248</u>	<u>11,162</u>
Total capital assets, being depreciated	<u>4,470,001</u>	<u>42,994</u>	<u>11,515</u>	<u>4,501,480</u>
Less accumulated depreciation:				
Sewer Fund				
Treatment Plant & Collection System	1,742,118	77,130	-	1,819,248
Machinery & Equipment	11,634	-	267	11,367
Water Fund				
Buildings	3,839	194	-	4,033
Water Distribution System	214,092	14,133	-	228,225
Machinery & Equipment	<u>22,410</u>	<u>-</u>	<u>11,248</u>	<u>11,162</u>

Village of Hesperia

NOTES TO FINANCIAL STATEMENTS-CONTINUED

March 31, 2005

NOTE D-CAPITAL ASSETS - CONTINUED

<u>Business-Type Activities-Cont.</u>	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2005</u>
Total accumulated depreciation	\$ <u>1,994,093</u>	\$ <u>91,457</u>	\$ <u>11,515</u>	\$ <u>2,074,035</u>
Total capital assets, being depreciated, net	<u>2,475,908</u>	<u>(48,463)</u>	<u>-</u>	<u>2,427,445</u>
Capital assets, net	\$ <u>2,534,063</u>	\$ <u>(48,463)</u>	\$ <u>-</u>	\$ <u>2,485,600</u>
Government activities: Depreciation Depreciation expense was charged to functions as follows:				
General government				\$ 1,303
Public safety				10,306
Public works				<u>16,314</u>
				\$ <u>27,923</u>
Business-type activities: Depreciation Depreciation expense was charged to functions as follows:				
Sewer				\$ 77,130
Water				<u>14,327</u>
				\$ <u>91,457</u>

NOTE E - DUE FROM/TO OTHER FUNDS

The following are the interfund receivables/payables at year-end.

<u>Water Fund</u>	
Due to Equipment Fund	\$ 21,555
Due to Sewer Fund	36,000
Due to General Fund	<u>12,450</u>
	\$ <u>70,005</u>

Village of Hesperia

NOTES TO FINANCIAL STATEMENTS-CONTINUED

March 31, 2005

NOTE E - DUE FROM/TO OTHER FUNDS-CONTINUED

Sewer Fund

Due to General Fund	\$ 11,331
Due to Equipment Fund	20,642
Due to Village Streets	<u>30,399</u>
	\$ <u>62,372</u>

Due from Water Fund	\$ <u>36,000</u>
---------------------	------------------

General Fund

Due from Water Fund	\$ 12,450
Due from Sewer Fund	<u>11,331</u>
	\$ <u>23,781</u>

Village Streets

Due from Sewer Fund	\$ 30,399
	\$ <u>30,399</u>

Equipment Fund

Due from Water Fund	21,555
Due from Sewer Fund	<u>20,642</u>
	\$ <u>42,197</u>

NOTE F - DEFINED CONTRIBUTION PENSION PLAN

The Village provides pension benefits to all of its appointed officers and full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Village contributes 7% of employees gross earnings and employees may make voluntary contributions of 1% to 10% of after-tax earnings. 100% of the benefits are vested immediately.

NOTE G - HEALTH INSURANCE

The Village pays an allowance for health insurance premiums as an employee benefit on behalf of all appointed officials and full-time employees through Municipal Benefits Services for Blue Cross/Blue Shield. In lieu of taking health insurance benefits, employees have the option to receive additional wages of \$100 per month.

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE H - LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended March 31, 2005:

	Balance <u>April 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>March 31, 2005</u>	Due within <u>one year</u>
Governmental Activities					
General obligation bonds	\$ 121,219	\$ -	\$ 7,131	\$ 114,088	\$ 7,131
Installment purchase agreements	<u>31,445</u>	<u>22,500</u>	<u>17,047</u>	<u>36,898</u>	<u>16,909</u>
Governmental activity long-term liabilities	\$ <u>152,664</u>	\$ <u>22,500</u>	\$ <u>24,178</u>	\$ <u>150,986</u>	\$ <u>24,040</u>
Business-type Activities					
Revenue bonds	\$ 515,000	\$ -	\$ 45,000	\$ 470,000	\$ 50,000
Installment purchase agreement	<u>8,280</u>	<u>-</u>	<u>8,280</u>	<u>-</u>	<u>-</u>
Business-type activity long-term liabilities	\$ <u>523,780</u>	\$ <u>-</u>	\$ <u>53,280</u>	\$ <u>470,000</u>	\$ <u>50,000</u>

Governmental activities:

General obligation bonds:

Intercounty Drain Note - The intercounty drain project was completed in fiscal year 2002 and the subsequent note payable was established to pay for the Village's portion. The note is payable to the Oceana County Drain Commission over a 20 year period with an interest rate of 5.25% per annum. The first payment was made January 22, 2002 and payments will be made annually until December 1, 2020. The note is backed by the full faith and credit of the Village.

\$ 114,088

Installment purchase agreement:

Police Vehicle Note - This note is a capital lease with quarterly payments of \$2,077. The final payment was paid in August, 2004. Interest is 6.05% per annum. The lease is secured by the vehicle.

\$ - 0 -

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE H - LONG-TERM DEBT - CONTINUED

Police Vehicle Note - This note is a capital lease with quarterly payments of \$2,010 at 5.15% per annum. The lease is scheduled to be paid in full in August, 2007. The lease is secured by the vehicle. \$ 18,745

Equipment Fund Note - The Village borrowed \$61,292 on January 17, 2000 from Shelby State Bank to purchase two 1990 International dump trucks, which are pledged as collateral. Payments are \$864.86 per month including principal and interest for 84 months. The last payment is due in January, 2007. Interest is 4.95% per annum. \$ 18,153

\$ 36,898

Business-type activities:

Revenue bonds

1978 Sewer System Reserve Bond

The Village Council entered into a contract with the County of Newaygo relating to the acquisition, construction, operation and financing of a sanitary sewer system. The annual principal payments of \$25,000 are due January 1 each year with the final payment due in the year 2018. Interest payments at the rate of 5% are due semiannually on January 1 and July 1. \$ 325,000

Water Tower Bonds - 1990

On June 28, 1990, the Village sold \$335,000 in revenue bonds through the Michigan Bond Authority for the purpose of constructing a water tower. Principal payments are due November 1 of year varying from \$25,000 to \$35,000 with the final payment due in the year 2009. Interest payments are due semiannually at varying interest rates of 7.10% to 7.20% and are due May 1 and November 1. \$ 145,000

Installment purchase agreements:

2000 Water/Sewer Note

On March 3, 2000 the Village borrowed \$40,392 from Shelby State Bank to purchase new meters for the water and sewer system. Payments were \$773.97 including interest and principal per month payable in 60 installments commencing April 3, 2000 and ending March 3, 2005. The interest rate was 5.63% per annum. The water and sewer funds have each paid one-half of the payment. \$ - 0 -

\$ 470,000

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE H - LONG-TERM DEBT - CONTINUED

Annual debt service requirements to maturity for debt outstanding as of March 31, 2005 is as follows:

Year ending March 31, 2005	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2006	\$ 24,040	\$ 7,498	\$ 50,000	\$ 18,540
2007	23,175	6,257	50,000	16,140
2008	11,074	5,317	55,000	13,715
2009	7,130	4,880	55,000	10,930
2010	7,131	4,492	60,000	8,145
2011-2015	35,653	16,855	125,000	18,750
2016-2020	35,652	7,492	75,000	3,750
2021-2025	7,131	376	-	-
Total	<u>\$150,986</u>	<u>\$ 53,167</u>	<u>\$ 470,000</u>	<u>\$ 89,970</u>

NOTE I - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

The General Fund and Special Revenue Funds are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results.

In the body of the financial statements, the Village's actual expenditures for the budgetary funds have been shown in a line item basis. The budget was adopted on the activity basis.

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (ML 141.42), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the year, over-expenditures occurred as listed below:

<u>Activity</u>	<u>Budget</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund			
General Government	\$ 59,485	\$ 66,030	\$ 6,545
Clerk	33,145	33,701	556
Treasurer	26,109	26,157	48
Public Safety	118,187	120,218	2,031
Other	800	7,701	6,901
Village Streets	15,144	15,262	118

Village of Hesperia

NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
March 31, 2005

NOTE J - ENDOWMENT FUND

The Fremont Area Community Foundation holds a designated endowment fund which has been reserved for the use of the Village of Hesperia. The fund is not available for general operating purposes but is intended to fund charitable community projects and programs as deemed appropriate by the Village Council and the Community Foundation Board of Trustees. As of March 31, 2005, the fair market value of this endowment fund was 26,965.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Hesperia
Budgetary Comparison Schedule
GENERAL FUND

March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes			\$ 171,208	
State Shared Revenue			104,654	
Charge for Services			2,456	
Interest			29	
Rents			2,761	
Refunds and Reimbursements			35,027	
Miscellaneous and Fines			<u>22,231</u>	
Total Revenues	322,645	363,683	338,366	(25,317)
Expenditures				
General Government				
General Government				
Wages			8,613	
Fringe Benefits			150	
Payroll Taxes			843	
Supplies			8,348	
Services			12,388	
Printing and Publishing			171	
Insurance			5,052	
Utilities			2,866	
Education and Training			90	
Miscellaneous			906	
Repairs and Maintenance			5,234	
Capital Outlay			<u>21,369</u>	
	34,000	59,485	66,030	(6,545)
Clerk				
Salaries			29,262	
Fringe Benefits			1,896	
Payroll Taxes			2,451	
Miscellaneous			<u>92</u>	
	33,145	33,145	33,701	(556)
Treasurer				
Salaries			18,163	
Fringe Benefits			6,345	
Payroll Taxes			<u>1,649</u>	
	26,109	26,109	26,157	(48)

Village of Hesperia
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED

March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
General Government-Continued				
Buildings and Grounds				
Salaries			\$ 2,027	
Fringe Benefits			437	
Payroll Taxes			179	
Supplies			224	
Repairs and Maintenance			659	
Insurance			1,932	
Utilities			3,435	
Services			389	
Rentals			-	
Capital Outlay			<u>28,913</u>	
	<u>9,300</u>	<u>41,914</u>	<u>38,195</u>	<u>(3,719)</u>
Total General Government	102,554	160,653	164,083	(3,430)
Public Safety				
Police Department				
Salaries			66,412	
Fringe Benefits			16,151	
Payroll Taxes			4,149	
Supplies			9,898	
Services			2,011	
Transportation			536	
Printing & Publishing			302	
Insurance/Bonds			8,474	
Utilities			4,728	
Repairs			3,085	
Education and Training			744	
Capital Outlay			<u>3,728</u>	
Total Public Safety	116,826	118,187	120,218	(2,031)
Public Works				
Street Lighting				
Utilities	19,000	19,000	18,645	355
Recreation and Culture				
Crossing Guards				
Salaries			5,489	
Fringe Benefits			84	
Payroll Taxes			<u>179</u>	
	6,750	6,750	<u>5,752</u>	998

Village of Hesperia
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED

March 31, 2005

		<u>Budgeted Amounts</u>		Actual	Variance with final Budget - Favorable (Unfavorable)
		<u>Original</u>	<u>Final</u>		
Park					
	Wages			\$ 11,044	
	Fringe Benefits			2,991	
	Payroll Taxes			669	
	Supplies			1,293	
	Services			1,345	
	Insurance/Bonds			1,448	
	Utilities			1,041	
	Repairs and Maintenance			<u>2,445</u>	
		<u>28,600</u>	<u>28,600</u>	<u>22,276</u>	<u>6,324</u>
Total Recreation and Culture		35,350	35,350	28,028	7,322
Debt Service					
	Principal	7,818	7,818	7,818	-
	Interest	<u>356</u>	<u>356</u>	<u>356</u>	<u>-</u>
		8,174	8,174	8,174	-
Other Functions					
	Transfer to outside government	-	-	7,250	(7,250)
	Other Activities - Miscellaneous	<u>800</u>	<u>800</u>	<u>451</u>	<u>349</u>
Total Other		800	800	7,701	(6,901)
Total Expenditures		<u>282,704</u>	<u>342,164</u>	<u>346,849</u>	<u>(4,685)</u>
Excess Revenues Over (Under) Expenditures		39,941	21,519	(8,483)	(30,002)
Fund Balance - Beginning of Year		<u>31,528</u>	<u>31,528</u>	<u>31,528</u>	<u>-</u>
Fund Balance - End of Year		<u>\$ 71,469</u>	<u>\$ 53,047</u>	<u>\$ 23,045</u>	<u>\$(30,002)</u>

Village of Hesperia
Budgetary Comparison Schedule
MAJOR STREET FUND

March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State Shared Revenue			\$ 65,136	
Street Sweeping			3,428	
Snow Removal			<u>3,470</u>	
	67,350	67,350	72,034	4,684
Expenditures				
Salaries and Wages			8,306	
Fringe Benefits			2,373	
Payroll Taxes			1,148	
Supplies			1,424	
Prof. and Contracted Services			1,607	
Utilities			430	
Rentals			6,544	
Repairs and Maintenance			16,208	
Debt Service				
Principal			5,348	
Interest			<u>4,786</u>	
Total Expenditures	<u>82,600</u>	<u>82,600</u>	<u>48,174</u>	<u>34,426</u>
Excess Revenues Over (Under) Expenditures	(15,250)	(15,250)	23,860	39,110
Other Financing Sources (Uses) Operating Transfer In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenues Over (Under) Other Financing Sources (Uses)	(15,250)	(15,250)	23,860	39,110
Fund Balance - Beginning of Year	<u>56,716</u>	<u>56,716</u>	<u>56,716</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 41,466</u>	<u>\$ 41,466</u>	<u>\$ 80,576</u>	<u>\$ 39,110</u>

Village of Hesperia
Budgetary Comparison Schedule
LOCAL STREET FUND

March 31, 2005

	<u>Budgeted Amounts</u>		Actual	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
State Shared Revenue			\$ 27,440	
Miscellaneous			<u>1,469</u>	
	26,781	26,781	28,909	2,128
Expenditures				
Salaries and Wages			6,814	
Fringe Benefits			2,373	
Payroll Taxes			371	
Supplies			1,950	
Prof. and Contracted Services			379	
Utilities			430	
Rentals			4,242	
Repairs and Maintenance			1,068	
Debt Service				
Principal			1,783	
Interest			<u>1,595</u>	
Total Expenditures	<u>26,800</u>	<u>26,800</u>	<u>21,005</u>	<u>5,795</u>
Excess Revenues Over (Under) Expenditures	(19)	(19)	7,904	7,923
Other Financing Sources (Uses)				
Operating Transfer In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenues Over (Under) Other Financing Sources (Uses)	(19)	(19)	7,904	7,923
Fund Balance - Beginning of Year	<u>2,538</u>	<u>2,538</u>	<u>2,538</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 2,519</u>	<u>\$ 2,519</u>	<u>\$ 10,442</u>	<u>\$ 7,923</u>

Village of Hesperia
Budgetary Comparison Schedule
VILLAGE STREET FUND

March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes			\$ <u>45,124</u>	
	42,809	42,809	45,124	2,315
Expenditures				
Salaries and Wages			8,327	
Fringe Benefits			2,390	
Payroll Taxes			819	
Supplies			824	
Prof. and Contracted Services			379	
Utilities			1,333	
Repairs and Maintenance			<u>1,190</u>	
Total Expenditures	<u>31,000</u>	<u>15,144</u>	<u>15,262</u>	<u>(118)</u>
Excess Revenues Over (Under) Expenditures	11,807	27,665	29,862	2,197
Fund Balance - Beginning of Year	<u>35,603</u>	<u>35,603</u>	<u>35,603</u>	<u>-</u>
Fund Balance - End of Year	\$ <u>47,110</u>	\$ <u>63,268</u>	\$ <u>65,465</u>	\$ <u>2,197</u>

OTHER SUPPLEMENTAL INFORMATION

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

**CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT**

1014 S. BEACON BLVD. • GRAND HAVEN, MI 49417
(616) 846-6210 FAX (616) 846-5111

348 WAVERLY RD., SUITE 126 • HOLLAND, MI 49424
(616) 395-8477

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Village Council
Village of Hesperia, Michigan

1. I have audited the financial statements of the governmental activities, the business type activities and each major fund of the Village of Hesperia as of and for the year ended March 31, 2005, which collectively comprises the Village of Hesperia's basic financial statements and have issued my report thereon dated May 20, 2005. I conducted my audit with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

2. As part of obtaining reasonable assurance about whether the Village of Hesperia's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

3. In planning and performing my audit, I considered the Village of Hesperia's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Hesperia's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 05-1 and 05-2.
4. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable conditions described above are not material weaknesses.

5. This report is intended for the information of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Calvin Meeusen Company C.P.A., PLLC

Calvin Meeusen Company, C.P.A., PLLC
May 20, 2005

Village of Hesperia

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ending March 31, 2005

SUMMARY OF AUDIT RESULTS

1. The Auditor's report expresses an unqualified opinion on the financial statements of the Village of Hesperia, Michigan.
2. Two reportable conditions were disclosed during the audit of the financial statements and is reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. These conditions are not reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of the Village of Hesperia, Michigan, were disclosed during the audit.

FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

05-1. Enterprise Billing System

Condition: The computerized billing system mis-recorded certain credits that were issued to customers to offset the overcharging of late fees. Most of these credits were run through a "miscellaneous credit" option for which the billing system provided inadequate documentation. Alternative methods had to be used to analyze this situation.

Criteria: All transactions processed by the enterprise billing system should be adequately documented so that proper oversight may be maintained.

Effect: Inadequate and/or improper documentation could compromise the integrity of the billing system and the ability to investigate errors.

Recommendation: Alternative ways of recording these types of transaction should be used. This would enable Village personnel to analyze and document all transactions for accuracy and completeness.

Response: Management concurs with the recommendation. There are other and better ways to record miscellaneous debits/credits and this is already being done.

Village of Hesperia

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
March 31, 2005

FINDINGS - FINANCIAL STATEMENT AUDIT-CONTINUED

05-2 Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel.

Criteria: Accounting functions should be delegated to different personnel in such a way that one can consistently act as a "check" on another.

Effect: The integrity of the accounting records could be compromised.

Cause: Virtually all of the important accounting functions are done by only two full time persons and one part-time person. None of them perform accounting functions on a full-time basis. The Village of Hesperia has traditionally operated very "lean" in the accounting area. The relatively small size of the Village does not justify the hiring of additional accountants.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Response: Management concurs with the recommendation. This has been done in the past and will continue in the future.

QUESTIONED COSTS

There were no questioned costs.

Village of Hesperia

Corrective Action Plan
May 20, 2005

United States Department of Agriculture
Rural Development Division

Village of Hesperia, Michigan, respectfully submits the following summary schedule of audit findings for the year ended March 31, 2005.

Name and address of independent public accounting firm:
Calvin Meeusen Company, C.P.A., PLLC
1014 S. Beacon Blvd.
Grand Haven, MI 49417

Audit period: April 1, 2004 to March 31, 2005.

The findings from the March 31, 2005 findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

Reportable Conditions

05-1 Enterprise Billing System

Condition: The computerized billing system misrecorded certain credits that were issued to customers to offset the overcharging of late fees. Most of these credits were run through a "miscellaneous credit" option for which the billing system provided inadequate documentation. Alternative methods had to be used to analyze this situation.

Recommendation: Alternative ways of recording these types of transaction should be used. This would enable Village personnel to analyze and document all transactions for accuracy and completeness.

Action Taken: Management concurs with the recommendation. There are other and better ways to record miscellaneous debits/credits and this is already being done.

05-2 Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Village of Hesperia

Corrective Action Plan-Continued

May 20, 2005

Action taken: Management concurs with the recommendation. This has been done in the past and will continue in the future. However, the condition is inherent. A practical remedy is not feasible.

If the Department of Agriculture, Rural Development Division has questions regarding this plan, please call Faye Ohrling at (231) 854-6205.

Sincerely yours,

Faye Ohrling, Clerk
Village of Hesperia, MI

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

**CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT**

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348 WAVERLY RD., SUITE 126 • HOLLAND, MI 49424
(616) 395-8477

May 20, 2005

Honorable Village Council
Village of Hesperia
Hesperia, Michigan

In connection with my examination of the financial statements as of March 31, 2005, I have reviewed the accounting policies and procedures employed by the Village and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Village of Hesperia for the year ended March 31, 2005, and have issued my report thereon dated May 20, 2005. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Village of Hesperia to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Village of Hesperia is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the Village taken as a whole. However, my study and evaluation disclosed that the internal accounting controls may not be adequate to reduce to a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Village of Hesperia may occur and not be detected within a timely period by Village personnel in the normal course of their duties. This is because of a lack of segregation of duties due to the limited number of accounting personnel. Accordingly, substantive testing has been increased to mitigate this situation.

A budget is required by the State Constitution and by State Statutes and is the only basis for spending. A local unit cannot overspend its adopted budget unless a change in the budget is approved by the Council. Any amendment to the adopted budget should be made no later than the last day of the fiscal year and any transfer of monies between funds, except those authorized by statute, should be held to an absolute minimum and should be authorized by resolution of the Village and recorded in the Council minutes.

Water and Sewer Funds - There were a number of customers that were overcharged for late fees due to a programming error in the initial system set-up. Credits were subsequently calculated and issued to these customers. The billing programming did not adequately document these transactions because most of the customer credits were processed through a "miscellaneous credit" option in the billing system that did not leave a proper paper trail. I recommend that alternative ways be found to record these types of transactions so that this situation does not re-occur. I further recommend that a threshold be established by management in which credits over a certain dollar amount be individually approved and independently calculated by supervisory personnel to ensure that the credits are properly issued.

Equipment Fund - Village management and the Village Council should consider consolidating the assets of the Equipment Fund into the General Fund. The amount of activity to be recorded does not justify the extra record keeping burden of maintaining this internal service fund. It could be set up as a separate department within the General Fund without losing any accountability. At present, it is collecting rents from the Major and Local Streets Funds only.

Accounting Software - The Village's current accounting system is entirely manual, with the exception of water and sewer billing. I believe that a computerized accounting system for all funds could accomplish its purpose much more efficiently and provide better documentation. I understand the Clerk has been researching options for a better integrated accounting software package and I highly recommend that this be implemented immediately. We would be happy to assist in the implementation of the accounting package.

Payroll Reporting - This is now being done in-house and is a time consuming process. This can be done efficiently and in a very cost effective manner by a payroll service to free up Village staff time. I recommend the Village consider the contracting of an outside payroll service to perform all functions of payroll - paychecks, quarterly reporting and W-2 preparation.

Due to/Due From's - Interfund borrowing was continuing to increase with a balance of approximately of \$241,000 as of March 31, 2004, however, approximately \$110,000 of these loans were repaid in the last year. The staff should be commended for improving the status of interfund borrowing. Interfund loans are sometimes necessary but they are intended to solve short-term cash flow problems and not become long-term loans. If the implementation of a plan to start repaying these interfund loans is not practical, then the Village Council should consider a plan to have the funds forgive the debts of another, where legally permissible.

I wish to commend the management of the Village of Hesperia for their efforts and cooperation in facilitating the implementation of the GASB 34 accounting pronouncement. This took effect on April 1, 2004 and the results are reflected in the accompanying financial statements and supplemental information for the year ended March 31, 2005. General fixed assets and new infrastructure are required to be capitalized, and depreciated, on the enhanced entity-wide financial statements that are a key component of the GASB 34 changes. I recommend that the Village adopt a minimum capitalization policy retroactive to April 1, 2004 of at least \$5,000 per asset.

In conclusion, I wish to say that my staff and I are very appreciative of the courtesy and assistance extended to us during the engagement. The above comments and recommendations are intended to be only of a constructive nature. I am sure they will help you to improve your accounting system and financial operation. I will be available to meet with you at any time in order to discuss these comments and recommendations.

Respectfully submitted,

A handwritten signature in black ink that reads "Calvin Meeusen Company C.P.A. PLLC". The signature is written in a cursive, flowing style.

Calvin Meeusen Company, C.P.A., PLLC